

2000-01 AGENCY OPERATING BUDGET THIRD QUARTER REPORT

**Agenda Item C-1
May 21, 2001**

The attached financial report presents 2000-01 budget information through the end of the third quarter. The Revised Budget 12/31/00 column displays the same information reported to the council February 4, 2001. The Revised Budget 3/31/01 column displays the current budget including changes between December 31, 2000, and March 31, 2001. The Actual Through 3/31/01 column displays revenues received and expenditures incurred through the third quarter. The final column, Percent of Budget, shows the relationship of actual revenues and expenditures to the Revised Budget 3/31/01 column.

Information is reported for five programs, including detail on each of the trust funds and for each federal program:

- Agency Operations
- Kentucky Virtual University & Kentucky Virtual Library (KYVU/KYVL)
- Strategic Investment and Incentive Trust Funds
- Pass-Through Programs
- Federal Programs

Trust fund interest earnings are reported in the Revised Budget 3/31/01 column as general fund carry-forward (1998-2000) and current year interest earnings (2000-01). The carry-forward line represents 1998-2000 interest earnings. The current year interest earnings line represents interest earnings received during 2000-01—additional current year interest earnings of \$1.3 million have been received since December 31, 2000 and are reported in the Revised Budget 3/31/01 column.

The council budget reduction is \$370,000. The agency operations program budget will be reduced by \$145,000 and the KYVU/KYVL budget will be reduced by \$225,000 in the fourth quarter of the fiscal year. The changes in revenue and expenditures will be reported to the council in the final 2000-01 quarterly report.

Agency Operations

Actual revenues and expenditures are within budget limits. The \$145,000 budget reduction will be taken from the personal services expenditure category in the fourth quarter by capturing salary savings from vacant positions.

KYVU/KYVL

Actual revenues and expenditures are within budget limits. The \$225,000 budget reduction will be taken from the personal services expenditure category in the fourth quarter by capturing salary savings from vacant positions and from unexpended balances from personal service contracts.

Personal services and capital expense expenditures through March 31, 2001, represent only 43 percent and 21 percent of their Revised Budgets, respectively. Actual personal services expenditures are less than projections for two reasons: reduced personal services contract costs, and salary savings from vacant positions. Capital expenses are lower than anticipated because of account code changes—some budgeted capital expenses are now charged to operating expenses.

Agency receipts represent funds received by the KYVU/KYVL from sources other than general fund appropriations. For example, the KYVU/KYVL receives funds from public and private institutions in support of the KYVL electronic databases. Actual agency receipts are consistent with budget projections. The 1998-2000 carry-forward amount, as reported to the council in February, reflects unpaid contract obligations from 1999-2000—both the obligations and the funds moved forward to 2000-01.

Agency receipts, unlike general fund appropriations, do not lapse but carry forward into the next fiscal year. The general practice is to spend the general fund appropriation first so that any balances remaining at the end of the 2000-01 fiscal year carry-forward.

Strategic Investment and Incentive Trust Funds

Actual revenues and expenditures are within budget limits. The trust funds were exempted from the 2000-01 state-mandated budget reduction.

The carry-forward line under the general fund revenue category represents 1998-2000 interest earnings on trust funds. These funds have been allocated to the institutions. The current year interest earnings under the general fund revenue category represent 2000-01 interest earnings. Current year interest earnings have not been allocated to institutions at the request of the Governor's Office for Policy and Management because of the uncertainty of the state's budget situation. Current year interest earnings continue to accrue to individual institutional accounts.

- **Endowment Trust Fund**

Revenues in the Endowment Trust Fund, \$128.6 million, include: the current appropriation of \$120 million, 1998-2000 interest earnings of \$6.1 million, and current year interest earnings of \$2.5 million. Allocations of the 2000-01 current appropriation and of 1998-2000 interest earnings have been made to the institutions. Actual expenditures through March 31, 2001, are from 2000-01 current appropriations—1998-2000 interest earnings have not been released to any institution. In order to request 1998-2000 interest earnings, institutions must fully match their 2000-01 allocations—Western Kentucky University is the only institution that has done so.

- **Research Challenge Trust Fund**

Enrollment growth and retention funds have been released to the institutions with 100 percent of the funds allotted as of March 31, 2001.

The 1998-2000 interest earnings for the Research Challenge program funded in the previous biennium have been allocated to UK and UofL but have not been released. The two institutions may request interest earnings when the statewide engineering memoranda of agreements are signed.

The Revised Budget 3/31/01 column includes the \$5.1 million state appropriation for Lung Cancer Research. House Bill 608 requires the Lung Cancer Research Board to prepare a plan for the use of the 2000-01 and 2001-02 state appropriations. Until a plan has been filed with the council, no funds will be released.

- Regional University Excellence Trust Fund

Enrollment growth and retention funds have been released to the institutions with 100 percent of the funds allotted as of March 31, 2001.

The 1998-2000 interest earnings for the Programs of Distinction funded last biennium have been allocated to the institutions. For institutions involved in the statewide engineering initiative, interest earnings will be released when the statewide engineering memoranda of agreements are signed. Other institutions may request their 1998-2000 interest earnings now.

- Postsecondary Workforce Development Trust Fund

There are three programs in the Postsecondary Workforce Development Trust Fund: Enrollment Growth & Retention; Workforce Training; and Administrative Systems. Allotments to the Kentucky Community and Technical College System are being made quarterly. The 1998-2000 interest earnings are available for allocation.

- Technology Initiative Trust Fund

The council previously received a list of activities funded through this trust fund. We anticipate a balance in the trust fund June 30, 2001, of \$1.5 million. Of the balance, \$500,000 is committed to projects and will be expended from July 1, 2001, through September 30, 2001. The uncommitted balance of \$1.0 million will be retained as a contingency for the Public Communications campaign, as discussed with the council.

- Student Financial Aid and Advancement Trust Fund

There are four programs included in the Student Financial Aid Trust Fund: KEES, KEES Reserve, Contract Spaces, and National Guard Tuition Reimbursement. The 2000-01 current appropriations for these programs have been allotted quarterly. Interest earnings, both for the 1998-2000 biennium and for

2000-01, are \$649,000. These amounts, and any additional interest earnings received in 2000-01, will carry-forward into the 2001-02 fiscal year and will become part of the 2001-02 KEES Reserve.

- **Adult Education and Literacy Trust Fund**

The 2000-01 current appropriation to the Adult Education and Literacy Trust Fund was \$7.0 million including \$225,000 for administration of these programs. The \$225,000 is shown in Agency Operations—this was reported to the council in February.

Allotments to the Trust Fund are made quarterly. Expenditures through March 31, 2001, are only 8 percent of the budget. Foundation program and innovative grant awards will begin in the fourth quarter. The current year interest earnings of \$141,200 have not been allocated.

- **Science and Technology Trust Fund**

The Science and Technology Trust Fund includes the 2000-01 current year appropriations for New Economy Initiatives as outlined in House Bill 572. These include the Entrepreneurial Audit and the Rural Innovation Fund. A third program, EPSCoR, is budgeted in the council's Pass-Through programs.

The council has entered into a contract with the Kentucky Science and Technology Corporation (KSTC) to coordinate new economy initiatives. The KSTC will conduct the entrepreneurial audit. The \$1.0 million 2000-01 current year appropriation for the Rural Innovation Fund will be allotted in the fourth quarter of 2000-01 but will be expended in 2001-02. Rural innovation grants are part of the contract with the KSTC—allocations are scheduled to begin November 2001. Funds allocated for the EPSCoR program and for the entrepreneurial audit will be fully spent by June 30, 2001.

Pass-Through Programs

Revenues and expenditures are within budget limits. All Pass-Through program activities will show zero balances June 30, 2001.

Federal Programs

Expenditures for personal services, operating expenses, grants, loans and benefits, and capital expenses are well below the revised budget limits. The GEAR UP Kentucky program was funded last fall; sub-grants to colleges, universities, and local schools will be made from May through September 2001. Funds not spent in 2000-01 will carry forward into 2001-02.

Expenditures for the Eisenhower program, budgeted at \$1,100,000, are within budget limits.

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